



NEW JERSEY DIVISION OF THE RATEPAYER ADVOCATE

An Update on Customer Choice for Residential Natural Gas Users

By January 1, 2000, all New Jersey gas customers will have the ability to choose the company that supplies their natural gas, just as consumers now choose long distance phone providers.

New Jersey's businesses already have the option of choosing a natural gas supplier. A new law -- the "Electric Discount and Energy Competition Act" -- will provide that choice to all residential customers as the new year begins. The goals of energy choice are to bring greater savings and new services to all New Jersey utility customers. The Ratepayer Advocate is working to ensure that these promises are fulfilled.

How will customer choice work?

Gas utilities now provide two services: gas supply and gas distribution. Gas supply refers to the product, or commodity, itself. Gas distribution is the service of transporting gas through New Jersey's pipelines to your home.

Beginning January 1, 2000, you will have the ability to shop for your gas supply, which could mean savings on your gas utility bill. Your traditional utility will continue to be responsible for delivering gas to your home, whether or not you choose to purchase gas from another supplier. Consumers who choose a competitive supplier have the option of returning to their utility even if their

services have been disconnected by the competitive supplier

The Ratepayer Advocate Is Working to Ensure that You Benefit From Choice.

The New Jersey Board of Public Utilities is conducting proceedings to determine how the State's natural gas utilities will implement full customer choice. In these proceedings, the Ratepayer Advocate is urging the Board to adopt policies that will create a vibrant competitive natural gas marketplace.

The Ratepayer Advocate's overall policy goals for the natural gas marketplace are to:

- ensure basic utility service at reasonable rates for all residential customers;
- establish a structure that encourages the broadest possible customer choice;
- encourage development of a robust marketplace attracting competitors and businesses to New Jersey;
- insure that all natural gas customers share the benefits of competition;
- maintain existing supply reliability and effective consumer protection;
- promote use of natural gas as an environmentally sound energy choice.

To achieve these goals, the Ratepayer Advocate is proposing a number of guidelines for the implementation of customer choice.

- **Clear, easy to understand information for consumers.**

In order to shop intelligently, consumers need clear, easy-to-understand information. Under the Board's authority, a statewide consumer education program has already begun. The Ratepayer Advocate will be working with the Board to assess the success of this program. Customers also need clear, easy-to-understand pricing information on their bills. Customers should be able to identify their rates for gas easily by looking at their utility bills. The Ratepayer Advocate is proposing that the utilities provide consumers with their 12-month usage histories and the amounts paid.

- **Shopping credits that will create choices.**

Utility rates need to be set at a level that will provide meaningful shopping for consumers. Shopping Credit is the bill credit that will give each customer of a natural gas public utility that chooses to purchase its gas generation service from an entity other than the public utility that provides its natural gas. If the shopping credit is too low, then gas suppliers will not enter the market, and consumers will have no opportunity to shop for an alternative supply. The Ratepayer Advocate is proposing rates for the utilities that will allow all consumers to have a choice of suppliers and achieve savings by shopping for natural gas.

- **Simple enrollment.**

Enrollment should be simple. First, the Ratepayer Advocate is proposing that all consumers receive enrollment packages, without having to take the extra step of

requesting them from the utility. Second, the Ratepayer Advocate is proposing enrollment procedures that are simple for consumers, such as internet enrollment and telephone enrollment procedures that require confirmation by a neutral third party for calls that are not initiated by the consumers.

- **Eliminate switching fees and other barriers.**

Utilities should not be permitted to charge customers a fee for switching to another supplier or switching back to the utility. The Ratepayer Advocate believes that switching fees are anticompetitive. The Ratepayer Advocate is opposing any utility proposals that could deter consumers from choosing an alternative supplier, such as proposals to charge higher rates or penalties to customers who choose a third-party supplier, and then later return to the utility's gas supply service.

- **Encourage aggregation.**

The Ratepayer Advocate has consistently expressed concern that residential and small commercial customers may not realize the benefits of competition because they do not have usage volume that is attractive to third party suppliers. Since economies of scale favor large customers, small customers can benefit from programs that allow them to combine or "aggregate" their gas usage, and solicit offers from suppliers to provide gas supply service to the aggregated group.

Under the new energy law, local governments can combine their needs for gas and electric service with those of business and residential customers. The Ratepayer Advocate is urging the Board to require the utilities to provide local governments with the information they need to aggregate their constituents, and to provide consumers with the information they need to decide whether to participate in government aggregation programs.



- **Give alternative suppliers access to the resources they need to serve the market.**

In order to serve gas consumers in New Jersey, a third party supplier must purchase gas at the wellhead and arrange to have it transported to New Jersey via interstate pipelines. However, there are physical limits to the available capacity on the interstate pipelines for transporting gas, and for related services such as storing gas in storage facilities operated by the pipelines. Because of their historic role as exclusive providers of gas supply service, the incumbent utilities control a significant portion of these limited resources. As the market opens to competition, the utilities will no longer need these resources to provide gas supply service to customers who have chosen another supplier. The Ratepayer Advocate has proposed that the utilities be required to offer their interstate pipeline and storage resources to these customers or their suppliers, before they are offered to anyone else.

- **Unbundle the component parts of gas supply, so that suppliers can offer more options to consumers.**

Although most customers will purchase gas supply as a single package, this service actually includes several component parts, such as buying gas at the wellhead, transporting the gas to New Jersey via the interstate pipelines, storing gas, usually in large underground facilities operated by the interstate pipelines, and making up differences in the amounts scheduled for delivery to the utility each day, with the amounts actually used by consumers. Although these services are “invisible” to the average consumers, they are important to natural gas suppliers. Rates for these component services need to be

separated out, so that suppliers can offer more options and lower prices for consumers.

- **Prepare for competition for additional services.**

Some other services now provided by the utilities include: supplying and maintaining meters, reading meters, billing and maintaining customer account information. Opening some or all of these services to competition could expand benefits to consumers. These benefits include: lower costs, as suppliers achieve economies by offering services such as meter reading and billing for more than one service; opportunities for suppliers to offer “packages” combining more than one service (such as electric, gas and energy management services); and development of new technologies that will help consumers save money by managing their energy usage. Although the new energy law provides that these services will not be open to competition immediately, the utilities

can and should start now to determine unbundled rates for these services, so that the benefits of competition will not be delayed.

- **Preserve existing service levels and consumer protections.**

Competition should not come at the expense of existing levels of service and consumer protections. There is a need for strong economic incentives for alternative suppliers to provide reliable service, such as monetary penalties and temporary or permanent suspensions for suppliers that fail to meet their commitments to deliver gas to New Jersey. Also needed are benchmarks and service standards to assure that



the services customers have come to take for granted, such as easy telephone access to customer service representatives and convenient neighborhood offices--as well as safety-related services such as investigation of gas leaks-- are maintained.

- **Maintain universal service.**

Consumers who have difficulty paying their utility bills must not be disadvantaged as a result of competition. The Ratepayer Advocate is proposing a number of measures to assure that these consumers continue to receive natural gas service, including adequate funding to provide affordable rate assistance to consumers who need it, aggregation for low-income consumers, and monitoring of the utilities' performance in maintaining service for all of their customers.

- **Prevent marketing abuses.**

Consumers should be protected from marketing abuses by unscrupulous third-party suppliers. Strong consumer protection regulations are needed, including prohibition of unfair contract provisions. Since abuses by suppliers engaged in door-to-door sales have been a particular problem in other states, the Ratepayer Advocate has urged the adoption of regulations that specifically address door-to-door sales.

- **Establish rules for fair competition.**

In order for competition to flourish, there must be regulations that prevent utilities and their affiliates from taking unfair advantage of the name recognition and other benefits that have resulted from their status as exclusive providers

of gas service, and from the utilities' continuing control of access to their distribution systems. The Ratepayer Advocate has urged the Board to act promptly to adopt strong standards to prevent such unfair advantages.

- **Facilitate utility-supplier dealings.**

In order for competition to succeed, utilities must implement efficient, standardized procedures for exchanging data with third party suppliers, and for coordinating deliveries of natural gas to New Jersey. The Ratepayer Advocate is working with the Board to establish uniform rules and procedures for suppliers to deal with New Jersey utilities.

The challenge of change may appear confusing at first, but change gives us the opportunity to reach new heights of affordability, choice and services for all energy ratepayers.

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